

Message Text

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PAGE 01 STATE 090166

60

ORIGIN EB-07

INFO OCT-01 ARA-06 ISO-00 GSA-01 COME-00 TRSE-00 FEA-01

CEA-01 CIAE-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-02

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 USIA-06 PRS-01 SP-02 OMB-01 /082 R

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FM SECSTATE WASHDC

TO AMEMBASSY KINGSTON

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E.O. 11652: N/A

TAGS: EIND, ETRD, US, JM

SUBJECT: JAMAICAN PROPOSAL FOR US ALUMINUM STOCKPILE

REF: (A) KINGSTON 1375, (B) KINGSTON 1404

1. FOLLOWING SHOULD BE USED IN CONVERSATION WITH
JAMAICAN OFFICIALS ON AN IF-ASKED BASIS. WE DO NOT WISH
TO GIVE A FORMAL USG RESPONSE AT THIS TIME.

2. AS EMBASSY AWARE, JAMAICAN BAUXITE EMISSARY MEYER
MATALON, IN MEETING FEBRUARY 21 WITH EXECUTIVE ASSISTANT TO
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PAGE 02 STATE 090166

SECRETARY EAGLEBURGER AND EB DEPUTY ASSISTANT SECRETARY

KATZ, MADE PROPOSAL (IDENTICAL TO REF B) THAT USG REPLENISH ALUMINUM STOCKPILE IN 1975-76. JAMAICAN PROPOSAL ENVISAGES USG PURCHASE OF APPROXIMATELY 1.05 MILLION TO 1.4 MILLION SHORT TONS OVER 18-24 MONTH PERIOD. LATTER FIGURE IS APPROXIMATE EQUIVALENT OF GSA SALES FROM STRATEGIC STOCKPILE IN 1973-74.

3. ALTHOUGH SUPERFICIALLY PLAUSIBLE, JAMAICAN PROPOSAL HAS SERIOUS POLICY AND ECONOMIC DEFECTS FROM OUR POINT OF VIEW. PROPOSAL OVERLOOKS FACT THAT USG STOCKPILES ARE STRATEGIC AND NOT ECONOMIC. WHILE EXECUTIVE AGENCIES AND CONGRESSIONAL BODIES ARE EXAMINING ECONOMIC STOCKPILING AS ONE

ALTERNATIVE TO POTENTIAL SHORTAGES, ADMINISTRATION DOES NOT AT THIS TIME HAVE AUTHORIZATION FOR INSTITUTING SUCH PROGRAM OR APPROPRIATIONS FOR FINANCING ACQUISITIONS.

4. PURCHASE OF ALUMINUM, IN AMOUNT SUGGESTED BY JAMAICANS, WOULD REQUIRE OUTLAY BY USG OF 819 MILLION DOLS (1.05 MILLION TONS) TO 1.1 BILLION DOLS (1.4 MILLION TONS) AT PRESENT PRICE OF 39 CENTS/LB. SUGGESTION MADE BY MATALON TO EAGLEBURGER AND KATZ THAT USG ISSUE THREE YEAR COMMODITY NOTES AS MEANS OF AVOIDING CASH OUTLAY IS UNACCEPTABLE. USG NOTES ARE BACKED BY FAITH IN USG TO FULFILL ITS OBLIGATION TO PAY. USE OF COMMODITY AS BACKING FOR SOME USG DEBT OBLIGATIONS WOULD SERIOUSLY DISRUPT INVESTOR CONFIDENCE IN USG PLEDGE THAT IS SOLE BACKING FOR OTHER TREASURY ISSUES AS WELL AS ADD TO PRESENT CONGESTION ON DOMESTIC FINANCIAL MARKET.

5. WE ALSO QUESTION MERITS OF JAMAICAN PROPOSAL ON ECONOMIC GROUNDS. ACQUISITION OF ALUMINUM STOCKS NOW AT 39 CENTS/LB FOR DISPOSAL TWO YEARS HENCE TO PREVENT PRICE FROM EXCEEDING 45 CENTS/LB WOULD ENTAIL CERTAIN FINANCIAL LOSS FOR USG. APPRECIATION IN VALUE OF STOCK-PILED ALUMINUM TO THAT LEVEL WOULD BE MORE THAN OFFSET BY STORAGE AND INTEREST CHARGES. ON THE OTHER HAND, UNLESS OTHER CONSUMING COUNTRIES NOW ACCUMULATED AND MAINTAINED SUBSTANTIAL ALUMINUM STOCKS AS WELL, WORLD PRICE OF ALUMINUM IN TIME OF TIGHT SUPPLY WOULD EXCEED LIMITED OFFICIAL USE

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PAGE 03 STATE 090166

PRICE US WAS TRYING TO MAINTAIN. AS CONSEQUENCE, US-PRODUCED ALUMINUM WOULD FLOW INTO MORE REMUNERATIVE EXPORTS, DEFEATING ANY EFFORTS TO MAINTAIN ADEQUATE DOMESTIC SUPPLIES AT THIS PRICE. AT THAT TIME, US WOULD HAVE ALTERNATIVES OF LETTING DOMESTIC PRICE RISE TO WORLD LEVEL OR IMPOSING EXPORT CONTROLS. THE FIRST ALTERNATIVE WOULD RENDER THE WHOLE EXERCISE MEANINGLESS; THE SECOND WOULD DAMAGE OUR FOREIGN TRADE RELATIONS.

6. ADDITIONAL OFFTAKE OF BAUXITE FOR PROCESSING INTO ALUMINUM AND ACCUMULATION OF A USG STOCKPILE FOR ECONOMIC PURPOSES WOULD BENEFIT ONLY JAMAICA AND OTHER BAUXITE EXPORTERS OVER THE NEXT 18-24 MONTHS AT DIRECT EXPENSE TO US TAXPAYER. THERE MIGHT OR MIGHT NOT BE OPPORTUNITY TO RECOUP SOME OF THESE COSTS BY SELLING OFF STOCKPILE ACCUMULATION DURING SOME LATER TIGHT SUPPLY PERIOD. OBVIOUSLY, WE WOULD BE HARD PUT TO JUSTIFY OUTLAY OF THIS MAGNITUDE DURING FORTHCOMING PERIOD OF HEAVY USG BUDGET DEFICITS.

7. WE ARE POUCHING TWO COPIES OF "GAO REPORT ON STOCK-PILING" CITED BY PM MANLEY IN REF A. THIS REPORT IS NOT

REPEAT NOT USG POLICY STATEMENT NOR DOES IT HERALD CHANGE IN U.S. STOCKPILING POLICY. EXECUTIVE BRANCH HAS SERIOUS OBJECTIONS TO GAO REPORT. WE BELIEVE BASIC ASSUMPTIONS OF REPORT ARE OPEN TO SERIOUS DISPUTE. MOREOVER, REPORT DOES NOT MAKE ADEQUATE DISTINCTION BETWEEN ECONOMIC AND STRATEGIC STOCKPILES. WE SUGGEST THAT EMBASSY DRAW ON APPENDICES TO GAO REPORT TO COUNTER JAMAICAN USE OF REPORT TO BOLSTER THEIR CONTENTION THAT USG SHOULD STOCK-PILE ALUMINUM. KISSINGER

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